

FISCAL NOTE

SB 1957

April 27, 1999

SUMMARY OF BILL:

- Deletes TCA Title 67, Chapter 4, Part 8 the current Excise Tax Law.
- Deletes TCA Title 67, Chapter 4, Part 9 the current Franchise Tax Law.
- Adds the following new section TCA Title 67, Chapter 4, Part 20 known as the Excise Tax Law of 1999.
- Adds the following new section TCA Title, 67, Chapter 4, Part 21 known as the Franchise Tax Law of 1999.
- Extends the franchise and excise tax to all corporations, subchapter S corporations, limited liability companies, professional limited liability companies, registered limited liability companies, professional registered limited liability partnerships, limited partnerships, cooperatives, joint-stock associations, business trusts, regulated investment companies, real estate investment trusts, state chartered or national banks, state or federally chartered savings and loan associations and any other organization or entity engaged in business. These taxes are not imposed on sole proprietorships or general partnerships.
- Includes in the definition of net earnings for a professional service business compensation paid to professional employees that exceeds \$72,000 per year.
- Authorizes the Commissioner of Revenue to include on any return for any tax a line on which the taxpayer filing the return shall report any use tax owed. The commissioner is further authorized to assess use tax on such return in accordance with the provisions of TCA 67-1-1438.
- Adds a new section to TCA 67-1-1440, which makes it a Class E felony for any person willfully to attempt in any manner to evade or defeat any tax imposed under Chapter 67. Each act done in violation thereof is a separate offense.
- Increases the tax on wine from \$1.10 per gallon to \$3.30 per gallon.
- Increases the tax on spirits from \$4.00 per gallon to \$12.00 per gallon.
- Increases the taxes on the following privilege taxes:
 - Private Club from \$300 to \$900
 - Hotel and Motel from \$1,000 to \$3,000
 - Convention Center from \$500 to \$1,500
 - Premier Type Tourist Resort from \$1,500 to \$4,500
 - Restaurants according to seating capacity, on licensed premises:
 - 75 seats to 125 seats from \$600 to \$1,800
 - 126 seats to 175 seats from \$750 to \$2,250
 - 176 seats to 225 seats from \$800 to \$2,400
 - 226 seats to 275 seats from \$900 to \$2,700
 - 276 seats and over from \$1,000 to \$3,000
 - Historic performing arts center from \$300 to \$900
 - Urban Park Center from \$500 to \$1,500
 - Commercial Passenger Boat Company from \$750 to \$2,250
 - Historic Mansion House Site from \$300 to \$900
 - Historic Interpretive center from \$300 to \$900
 - Community Theater from \$300 to \$900
 - Zoological Institution from \$300 to \$900
 - Museum from \$300 to \$900

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- Establishment in a terminal building of a commercial air carrier airport from \$1,000 to \$3,000
- Commercial Airline Travel Club from \$500 to \$1,500
- Public Aquarium from \$300 to \$900
- Increases the tax on mixed drinks from 15% of the gross receipts to 45% of the gross proceeds.
- Increases Commercial Airlines and Passenger Trains in lieu of tax fees for alcoholic beverages from \$750 to \$2,250.
- Increases from \$3.90 to \$11.70 per 31 liquid gallons, the tax that is charged to every person, firm, corporation, joint-stock company, syndicate or association in this state storing, selling, distributing, or manufacturing beer or other alcoholic beverages containing less than 5% alcohol. This tax is in addition to all other taxes assessed. The tax upon barrels containing more or less than 31 gallons are taxed at a proportionate rate.
- Increases the tax rate on cigarettes from 13 cents per pack of 20 to 39 cents per pack of 20.
- Increases the tax on all other tobacco products from 6% to 18% of the wholesale cost.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact:

\$551,011,300 FY99-00

\$401,011,300 FY00-01 and Subsequent Years

Increase State Expenditures - Exceeds \$3,000,000 Recurring

Exceeds \$2,000,000 One-Time

Increase Local Govt. Revenues - Net Impact:

\$18,993,900 FY99-00 and subsequent years

Estimate assumes the following:

- The total increase in state revenues in FY99-00 is estimated to be approximately \$578,181,400, as shown below:

<u>Tax</u>	<u>Increased State Revenues</u>
• Franchise and Excise Tax	\$242,400,000
• Wine Tax from \$1.10 to \$3.30	6,936,500
• Spirits Tax from \$4.00 to \$12.00	26,671,100
• Privilege Taxes on Mixing Bars	458,000
• Mixed Drink Tax from 15% to 45%	18,225,700
• Alcohol Tax from \$3.90 to \$11.70	22,136,900
• Cigarette Tax from 13 cents to 39 cents	102,197,900
• Tax on Other Tobacco Products from 6% to 18%	8,155,300
• Add Use Tax Reporting Line on Tax Returns	1,000,000
• Implement Quarterly Tax Payments (One-Time)	150,000,000

- The total decrease in state revenues in FY99-00 is estimated to be approximately \$27,170,100, based on decreased sales tax revenues resulting from an estimated 25% decrease in consumption of alcohol and tobacco products.

- The total increase in state revenues in FY00-01 and subsequent years is estimated to be approximately \$428,181,400, as shown below:

<u>Tax</u>	<u>Increased State Revenues</u>
• Franchise and Excise Tax	\$242,400,000
• Wine Tax from \$1.10 to \$3.30	6,936,500
• Spirits Tax from \$4.00 to \$12.00	26,671,100
• Privilege Taxes on Mixing Bars	458,000
• Mixed Drink Tax from 15% to 45%	18,225,700
• Alcohol Tax from \$3.90 to \$11.70	22,136,900
• Cigarette Tax from 13 cents to 39 cents	102,197,900
• Tax on Other Tobacco Products from 6% to 18%	8,155,300
• Add Use Tax Reporting Line on Tax Returns	1,000,000

- The total decrease in state revenues in FY 00-01 and subsequent years is estimated to be approximately \$27,170,100, based on decreased sales tax revenues resulting from an estimated 25% decrease in consumption of alcohol and tobacco products.
- The total increase in local government revenues in FY 99-00 and subsequent years is estimated to be approximately \$29,182,700 as shown below:

<u>Tax</u>	<u>Increased Local Govt. Revenues</u>
• Excise Tax Apportionment	\$ 7,600,000
• Mixed Drink Tax from 15% to 45%	16,823,700
• Alcohol Tax from \$3.90 to \$11.70	4,534,000
• Use Tax Line Item on Tax Returns	225,000

- The total decrease in local government revenues in FY99-00 and subsequent years is estimated to be approximately \$10,188,800, based on decreased sales tax revenues resulting from an estimated 25% decrease in consumption of alcohol and tobacco products.
- The increase in tax revenues (excluding franchise and excise tax) is based on actual collections for the current fiscal year and an estimated 25% reduction in consumption.
- The increase in state expenditures resulting from implementing changes to the tax structure is estimated to exceed \$3,000,000 in recurring costs and exceed \$2,000,000 in one-time costs.
- Local governments will receive a share of the revenues generated according to apportionment formulas.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director